Company Name: Logitech
Company Ticker: LOGN SW
Date: 2018-05-03
Event Description: Q4 2018 Earnings Call

Market Cap: 6,837.71
Current PX: 39.50
YTD Change($): +6.60
YTD Change(%): +20.061

Bloomberg Estimates - EPS
Current Quarter: 0.270
Current Year: 1.754
Bloomberg Estimates - Sales
Current Quarter: 580.000
Current Year: 2779.000

Q4 2018 Earnings Call

Company Participants

- Benjamin Lu
- Bracken P. Darrell
- Vincent Pilette
- $2 EPS
- Unverified Participant

Other Participants

- Joern Iffert
- Asiya Merchant
- Andreas Müller
- Michael Foeth
- Paul Coster
- Jörn Iffert

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Sharon and I'll be your conference operator today. At this time, I would like to welcome everyone to the Logitech Fourth Quarter 2018 Conference Call. All lines have been placed on mute to prevent any background noise.

And after the speaker's remarks there will be a question-and-answer session. [Operator Instructions] Thank you. Ben Lu, Head of Investor Relations. You may begin your conference.

Benjamin Lu

Thank you. Welcome to the Logitech conference call to discuss the company's financial results for the fourth quarter and full fiscal year 2018. The press release, our prepared remarks and slides, as well as a live webcast of this call are available online at the Investor Relations page of our website, logitech.com.

During the course of this call, we may make forward-looking statements, including forward-looking statements with respect to future operating results that are being made under the Safe Harbor of the Securities Litigation Reform Act of 1995.

The forward-looking statements involve risks and uncertainties and actual results could differ materially as noted in our quarterly and other filings with SEC. The company undertakes no obligation to update or revise any forward-looking statements, as a result of new developments or otherwise.

Please note that today's call will include results reported on a non-GAAP basis, except as otherwise noted. Non-GAAP reporting is provided to help you better understand our business; however, non-GAAP financial results are not meant to be considered in isolation from or as a substitute for or superior to GAAP results.

Non-GAAP measures have inherent limitations and should be used only in conjunction with Logitech's consolidated financial statements prepared in accordance with GAAP. Our press release and slides provide a reconciliation between GAAP and non-GAAP numbers and are posted on our Investor Relations website.

We encourage listeners to review these items. Unless noted otherwise, comparisons between periods are year-over-year and in constant currency. This call is being recorded, and will be available for replay on the Investor Relations page of the Logitech website.

Joining us today from California are Bracken Darrell, President and Chief Executive Officer; and Vincent Pilette, Chief Financial Officer.

I'll now turn the call over to Bracken.

joining us today from Lausanne are Bracken Darrell, President and Chief Executive Officer; and Vincent Pilette, Chief Financial Officer. I'll now turn the call over to Bracken.

Bracken P. Darrell

Thanks, Ben, and thanks to all of you for joining us. Logitech delivered another great year with sales up 13% and profits up 14%. We grew across all three regions in all five of our markets. It's our second straight year a solidly double-digit growth. You all remember last year we are up 15%. This performance demonstrates the power and the resilience of the diverse portfolio we've built. It also reflects our continued investments in our capabilities, capabilities to create that exciting multi-brand, multi-category model.

Just to remind you briefly what those capabilities are, engineering, you're starting to see our software product work flow through in more categories all the time and we're not letting up on hardware engineering. Design, this year, we broke every record for design awards we've had and won more than any peer per sales dollar by 70% plus. Go-to-market, we keep expanding our go-to-market channels, especially in video collaboration and our online ratio continues to grow rapidly. Marketing, we're building especially online and with influencers, and operations in which we would call manufacturing procurement operations, leveraging our inside outside manufacturing model.

So yes the financial results were very good. That surely means our view of fiscal year 2018 was a very good year and it probably was from most people's perspective, but not from our perspective. We don't aspire to be just good. We simply made too many mistakes. We didn't execute well on our distribution center move in the Americas for example and it cost us a lot especially in Q3. We launched three new products this year and we're a product company, invisible spaces that shift at lower standards of user experience and we're accustomed too. Of course since their launches were brought them back up to our standards and though these products were technically challenging and new technologies to us that's simply no excuse. I hate launching

that's simply no excuse.

I hate launching less than great. The bottom line is that we left a lot on the table. While, it was a great year by the standards of most people, it was not by our own standards. We can be, and we are better than that and I pledge that we'll do better in the future.

Now let me go through our results. First, let me highlight two especially exciting businesses gaming, and video collaboration. We delivered another year of exciting growth in gaming growing fiscal year 2018 sales by 52% to $0.5 billion, gaining market share and improving profitability.

Gaming actually became larger than the original mouse business this past year. Growth in gaming was broad based with all three regions and all product lines delivering powerful results. The secular rise of computer gaming in general and esports specifically continues unabated.

This must be what it was like and I apologize, you Europeans, but I grew up here in the U.S. although, I've lived a lot in Europe. This must be what it was like in the early 1960s as the NFL was rising for the 1970s as the NBA was.

And as if it – if that weren't enough, new blockbuster games like Fortnite and PUBG are bringing new gamers into the market and driving upgrades to gaming dedicated peripherals. Our newest acquisition ASTRO Gaming was a strong contributor to our results, and represented approximately two points of our overall sales growth and 17 points of our gaming sales growth.

Video collaboration sales grew 39% in fiscal year 2018. We reached our highest ever quarterly sales in Q4, with an annualized run rate above $200 million for the first time ever. This business has come a long way from virtually nothing five years ago. And the potential here is tremendous.

Companies around the world are increasingly embracing open office floor plans. Video meetings are on the rise, and company simply want lower cost cloud-based solutions. The world's moving to video

and will help drive that adoption. PC peripherals sales grew 1% with all three product lines pointing devices, keyboards and webcams delivering another year of stable growth with an accelerating Q4. While this group should progressively be a smaller part of our portfolio going forward, this does not mean that we're going to stop innovating aggressively, quite the opposite. We're more excited than ever about what we can do here to innovate, whether it's in our premium MX family of mice and trackballs or our latest flagship MC CRFT keyboard. We see a solid outlook for this business that not only provide stable profits and cash flows to fund our other opportunities, but also gives the technical and go-to-market capabilities to leverage across the other markets. I'm also excited about initiatives coming later this year and next in these categories. Tablet and other accessories were exciting; four years ago during my first few years here and they've gotten exciting in again. Sales grew 38% this year to over $100 million. The growth has come from our new innovative tablet products, new channels like the education market and the recovery of the iPad tablet market.

Moving to Mobile Speakers, sales were up 2% for the full year, but were down 67% in Q4. We'd expected this reset in Q4 as we suggested at our Analyst and Investor Day in March. If you recall our Q3 Mobile Speaker sales were up 34% – for Q3 were up 34% coinciding with the holiday launch our two new voice-enabled BLAST and MEGABLAST speakers. Some of you remember that this reset was similar to the one we experienced back in Q3 and Q4 in fiscal year 2016. That year after a strong Q3, we drove our Q4 sales and down 37% in anticipation of to the slower market growth. Today, we're facing similar dynamics. We lost our voice-enabled BLAST and MEGABLAST speakers over the holidays, but the market for third-party voice-enable speakers has not yet gained traction

We expect the overall global market for mobile speakers to continue to grow about 5% over the next few years. But we also believe there is a place for Wi-Fi personal assistant enabled speakers beyond the big player zone, but we're cautious about overlying on that. The Q4 decline includes the channel inventory and price realignment of BLAST and MEGABLAST to hit the market sweet spot.

Though we are counting on a big year in third-party personal assistant enabled speakers, we are releasing cool new features on BLAST and MEGABLAST regularly now. Like our recent announcements of Spotify over voice support and our much awaited multi-speaker groupings that will be coming very soon. We'll continue to prepare for a market to take off if it happens but in Q4 and continued in Q1, we'll took – we took and are taking the opportunity to realign our channel inventory.

Audio, PC and wearables sales are flat for the year with double-digit growth in Jaybird offsetting the continued decline in our desktop speaker business. We remain excited about the opportunities in the wireless earbud market and will further innovate here and carve out our own niche.

Our Smart Home group posted robust full year sales growth of 33% owing largely to the integration of Alexa and Google assistant into our Harmony Hub family of products that offsets a decline in our legacy universal remote business.

And with that, let me turn the call over to Vincent to walk you through our key financial metrics.

Vincent Pilette

Thanks, Bracken. We delivered a strong financial performance for fiscal year 2018. Sales grew 13% in constant currency, 16% on the U.S. dollar basis to a record level of $2.6 billion. The growth was broad-based across our regions, across our product categories and now acquired businesses Jaybird [indiscernible] and ASTRO all grew double-digits in the year. On top of strong sales growth numbers, our fiscal year 2018 non-GAAP operating income was better than expected and increased 14% to $287 million. Non-GAAP EPS reached $1.60 in fiscal year 2018, well on track to our long term plan.

Finally cash flow from operations reached $346 million up 20%. In Q4 our gross margin recovered to 36.4% as expected and for the fiscal year gross margin was 35.9% essentially at the midpoint of our target range of 35% to 37%. As Bracken mentioned we resolved our distribution center issues that materially impacted our prior quarter results and impacted the full year gross margin by approximately 60 basis points. The whole process was challenging and we've definitely walked away from that experience with valuable earnings.

In Q4, we also adjusted our pricing of mobile speakers to better position the line of blast voice enabled speakers as well as our BOOM Bluetooth speakers ahead of fiscal 2019 new products and upgrades. As we shared with you in the past, gross margin is the number one metric that we internally manage to assess the health of our business. When it comes to gross margin, we will continue to balance headwinds such as portfolio and pricing readjustments with benefits coming from cost saving programs, economies of scale and even currency.

I'm very confident in our opportunity to drive the business overtime towards the high end of our long-term gross margin range and free up investment capacity. Our non-GAAP operating expenses increased 10% in fiscal year 2018 to $635 million, 8% excluding ASTRO compared with sales growth of 16% in U.S. dollars. These demonstrate our discipline in driving operating leverage through balancing our spend with both topline and gross profit increase while continuing to invest to capture the growth opportunities we want to pursue.

Our approach is pretty simple. We continuously look to optimize infrastructure spend improve our execution to invest more in creating and selling products. Our sales and marketing expense increased 14% to support the long – the strong top line growth in the year, while our R&D spending was up to 9%. On the other hand, our G&A spending was down 6% as we do of G&A as a percent of sales to a record low of 3.1% on an annual basis.

We achieved better than expected Q4 and full year operating profit, EPS grew 13% to $1.60 and more excitingly going into fiscal year 2019 we delivered that profit growth while investing for the future and absorbing the cost of our earnings. Internally, I keep reminding our team that it's not about sales or profit growth, it's about sales and profit growth. But to be more accurate I should it is sales, profits and cash from ops all growing. And on that front we delivered another strong year. We achieved improved working capital metrics for the full year after having invested in our working capital in the first half ahead of several major product introductions. We generated the highest level of cash flows in eight years at $346 million up 20% from the prior year.

Our cash conversion cycle was 22 days for the year down from 24 days last year as we achieved the best inventory turns since we started our transformation. During the year, we returned $135 million to shareholders in the form of dividend and buyback and we exited the year with a very strong balance sheet including $642 million in cash. In summary, we feel very good about the momentum exiting FY 2018 and

we are confident we are going to have another great year in fiscal year 2019. We are well on track to our target of $2 EPS by FY 2020.

And with that, Bracken I hand it back to you.

Bracken P. Darrell

Thanks, Vincent. After five years of progressive and I put this in quotation marks "success in the eyes of many." The biggest risk we can take is to stay the course, especially since time seemed to be good. As I said in the past we're just getting started, at this time we're just getting started with a fresh look on the next five years. So I expect change. We're objectively reviewing how to drive the growth opportunities ahead of us, reallocating, realigning, and rethinking across the entire business. I expect us to play offense, expect us to transform again. We just gave our outlook for fiscal year 2019 in March and today we're confirming sales growth of high single-digits in constant currency and non-GAAP operating income from $310 million to $320 million.

And with that, Vincent and I are happy to take questions.

Q&A

Operator

[Operator Instructions] Your first question comes from Joern Iffert with UBS. Your line is open.

<Q - Joern Iffert>: Yeah. Hi and thanks for taking my questions.

<A>: Hi

<A>: Hi

<Q - Joern Iffert>: And the first I will [indiscernible] on wireless speaker, can you share with us what was roughly the sale through growth in Q4? And second question would be please on video collaboration, I mean you have now employed much more own and salespeople going also direct and distribution approach, but the sales across as a matter of fact not really ticking up. I mean just curious if you still are certified at this stage, you know growth opportunities going into 2019-2020? And the third question would be on productivity. I mean

there was an impressive increase on sales to employ in the last seven years, eight years around 40%. As you're getting bigger and bigger, do you think that this productivity increase are over now or do you still see room for significant sales increases employee if you benchmark your company? Thanks very much.

<A>: Okay. Let me – let me take the video collaboration question next and 00:16:09 kind of share the next two. So first of all yeah we are investing systematically in more sales resources out in the market. We're also investing systematically in more engineering resources inside. We've got some of our – we've got some exciting innovation underway and so far the returns on those investment resources to as you call it direct selling is really making sure that we have the right sales people on the ground whether they're interacting directly with potential people – users of the product or the distribution networks that we use to get to the market. It's kind of a mixture of both. The returns on those looked very good and we're going to keep investing. I'm not sure what you meant by whether we're not getting a return our growth rate was 39% this quarter. We just upped $200 million mark for the first time and so our growth continues to be very strong and we're expanding that around the world. So we feel very good about our growth rate. Our growth approach and the investment of resources we're making.

<A>: Quickly to clarify on sell through for mobile speaker. Overall on a global basis it was positive mid single digit. It was slightly negative in the MR, positive high single digit and double digits in Europe and AP. This situation you see mobile speaker is very similar to what we faced in Q4 2016 where we prepared our business and exhibit with a market in front of us that expect to be lower gross also still mid-single digit growth but lower growth and we want to be as prepared for that as we can and then we'll obviously try to go in FY 2019.

as much market share gain as we can in that lower gross market.

<Q>: And the last one ...

<A>: And then you had a question on productivity. I think for the company probably around efficiency ...

<Q>: Productivity per employee?

<A>: Yes, if I understand correctly. So look – we continue to look at you know experimenting taking new risk, we talk about investment in many different areas. And so, I see productivity as a continuous process if you want. We constantly try to adjust to our market dynamics to be more efficient in our infrastructure from a spend perspective, and you've seen as an example, it's not the only one but G&A dropping now to a record low 3.1%, I think we can do better meaning absorbing the gross without growing our top line here. And then, we reinvest a lot of those efficiencies into R&D or sales and marketing. But even there I think we kind of need do to drive in R&D, better with use of our program trying to get the bigger ROI and output. So I think it's a – it's a constant effort, if you will.

<A>: But I think you make an – you're asking an interesting question and I think we are going to keep experimenting on the – what's the right mix of investments in OpEx to make sure we realize the potential growth here.

<Q>: All right. Thanks for this. And maybe just a follow-up on this one, and what's roughly the number, the head count increase you are planning for obviously 2019 versus fiscal year 2018?

<A>: So we don't know what the share of head count increase, the targets are...

<Q>: We're not going to forecast and also head count is an interesting metric. But in some areas, we're moving from one location to the other, we have more head count, or less head count [indiscernible] just spend. So there is many different things that go into that in fiscal year, in this year we've increased head count in line with our OpEx increase.

<Q>: Yeah. What I would say is we're going to be responsible on OpEx as we've been in the past. I think we've been very disciplined in the past in regardless of where we – what we would you know probably say and I think, we've been very disciplined in the past than regardless of where we – what we would publicly say are not about head count. You can expect us to continue to be very responsible and disciplined.

<Q>: Thanks very much.

<A>: Thank you.

Operator

The next question comes from Asiya Merchant with Citigroup. Your line is open.

<A>: Hi, there.

<A>: Hi, Asiya.

<A>: I think, maybe you are muted or at least we can't hear you.

<Q - Asiya Merchant>: Am I muted, I can hear – can I hear you?

<A>: There you go. Yes. Yes. Yes. Now we can hear you.

<Q - Asiya Merchant>: All right. Okay. Oh! Congratulations on everything. Great results.

<A>: Thank you.

<Q - Asiya Merchant>: Quickly, on the use of cash. You're sitting on significant cash flow generation obviously, your ending cash was pretty impressive around 19% of your current market cap. How should we think about share buyback into 2019?

I mean, is there plans to execute on that remaining buyback through the year-end 2020? What's kind of baked into your $2 EPS expectations from a share count perspective? And then I have a product follow-up.

<A>: Yeah. Let me quickly address that. So, just as a reminder right, capital allocation framework that we've shared with you and that's supporting and approved by our board is first to use our cash into acquisition. And you've seen the performance that we shared a little bit about the performance of [ph] Cytex, Jaybird or ASTRO all growing double-digit and we believe we have a good recipe here of ingredients and footprint that when we take an asset, we can then create value for that.

So, that's our primary effort and we're very active in looking at targets, as you know as we've always been. The second one is dividend, and we changed the policy into a growing dividend. So, when we published our proxy in June-July then

we'll give indication for the next dividend, but growing dividend, this is the second strategy? And then the third one is the opportunistic buyback. We have a $250 million program open. We bought $31 million this year, we have $219 million left. We do expect to continue to buyback. There was a certain run rate and then there was opportunistic depending on what happens with the market. So you should expect us to continue to buy back. In term of the assumption used for the $2 EPS, we assume flat share count and there are many different things that go into the share count, the buyback is one of them, of course the share price dilution as many options exercise, many different dynamic, but the overall assumption is flat share count.

<Q>: Okay, great. And then on the product side tracking, I mean you know you're talking about expressing some disappointment with your product launches this year. So what, without like obviously sharing you know news and step, how should we think about the product, you had a cadence of product launches going into 2019. Is this more first half, second half loaded, you know, obviously gaming and video collaboration are areas of focus, but what about the other categories, should we continue to expect you know recurring product launches there. If you can just kind of provide us with some, is that how you're thinking about portfolio that would be great?

<A>: Sure. Sure. Sure, absolutely. So we're you know we're very guarded on what we're doing, when we're doing it and so we're very hesitant to ever release early anything for all the reasons that you know. But you know one thing for sure, we're a product company and so we're always working on the next generation of innovation that we can bring to market. And that's basically what everybody who touches everything, we're doing right now on the product side is doing. And so we've got – I think we've got a really cool set of products coming out this year, throughout the year, across all categories. And I'm super excited about it. But I'm afraid, I can't say more than that except I think the kind of the cadence and

level will be very similar to last year. But we keep upping our game.

<Q>: And how would you balance that with kind of continued focus on OpEx reduction, is that something that's kind of baked into the guidance that you guys gave at your Analyst Day for $310 million to $320 million? You talked about a little bit of investment dollars that you set aside is about I think $50 million if my memory serves me correctly. So can I just – how do you expect to – is that the investments that you're talking about that you would invest in new products or is that kind of acquisition integration or how should investors kind of think about that money set aside for investment dollars?

<A>: Well, let me answer that and then I'll let Vincent chime into because I can see he is chomping it a bit. Yeah, so we were increasing our investment in engineering, in products and in the go-to-market side all the time. And so we're going to keep doing that. And you can expect it's built into our assumptions and it will continue to be. And where we see opportunities where we really should be investing more, we're going to do it because at the end of the day, the most important thing we have is the most important thing we are as a product or experience company and so we're going to keep investing. What we guided when we in March and we're guiding today assumes we're going to keep doing that, we will. Vincent you want to add any?

<A>: Yeah. What I want to say and going back to what we said in March right. The differently specific areas we want to accelerate our direct sales force for video collaboration, our capabilities in online selling increasing more of the new R&D projects that we have and we have kind of a three-year roadmap going to FY 2020. And as we see room in FY 2019 or if we are able to accelerate gross margin increase, we will reinvest as we discussed in March to sustain the top line growth or even accelerate the top line growth. So that's our objective. That's how we'll go. At this point in time, when you look at the

$2 EPS

36 since you referred to it, we definitely plan to increase gross margin and increase our investment as a result. But it's a balance act as we go...

<A>: [indiscernible] can I add one of the thing. You know, I think, especially on the call with analysts and investors and we're all pretty numbers oriented people. I think it's easy to think about the level of innovation coming from the amount that you spend. You know it's a logical thing. The truth is you know if you look at the innovation in the world right now, the most innovative things are coming from very small teams who are working in a very focused way to create something new built on a big insight and a lot of drive. And that's exactly what I feel about this company. We need to be operating. It's not about how much money we spend on it. It's about how much insight we have, how much understanding of technology and how much drive we have, with the teams that are working on these things. So we're operating in a very distributed teams that are working on each. Each one is small and hungry and working on something that's trying to make a difference.

<Q>: Great. Thank you.

<A>: Thank you.

Operator

Your next question comes from Andreas Müller with ZKB. Your line is open.

<A>: Hi, Andreas.

<A>: Yes.

<Q - Andreas Müller>: Yes. Good morning. Hi, everybody.

<A>: Hi.

<Q - Andreas Müller>: Thanks for taking my questions. And I have a question on the inventories that are on a very low level at this point of the year. On a historic perspective at least, how comfort that are you to satisfied the current demand or a pickup in that demand?

<A>: So if you talking about our own inventory, I'm assuming that's not what you're doing about. If you talking about channel inventory, as you've seen, our sell-through was bigger than our sell-in. But overall, I would say weeks on hand is within our target range and slightly down but somewhat flat on the year-over-year basis. So when it comes to channel inventory, it's all a question and assumption on the future growth. So right now we feel well-positioned with our channel inventory for your

slightly down, but somewhat flat on a year-over-year basis. So when it comes to channel inventory, it's all a question and assumption on the future growth. So right now we feel well positioned with our channel inventory for the year that's projected at high single digit and then we will monitor that as we go by category, by region, all of that, of course.

<A>: I think he's also referred to our own inventory.

<A>: If you refer to our own inventory, I think we are somewhat in line. You know last year we finished $253 million, this year $260 million. It's definitely efficiency gains in that process, but we feel very comfortable where we are on that front.

<Q>: Okay. And in EMEA, could you confirm that the selling figures are going to be more in line than with the sell through this quarter. I think that was indicated in the last call that that's going to be more kind of similar selling and sell through.

<A>: We don't get it by quarter nor by region, but you've seen the correction of sell through higher than selling in the EMEA and we will drive the business the way we think it should be. I don't want to start forecasting, if you want for that quarter, but yes at one point in time that will let level up if you want and align sell through and selling as we progress through the year.

<Q>: All right. And could you dissect the gross margin development, what was the remaining impact on the distribution center in the U.S. what was the gross and net currency impact this quarter.

<A>: Yeah. So to be more precise right, the currency and if the euro is the main one, but of course we have other currency playing. We gained about 0.5 point, 60 basis point of gross currency impact somewhat slightly offset by hedging as currency moved up quarter-over-quarter Q3 to Q4, so if you take the euro and move from 1.17 average last quarter to 1.23 this quarter. So there was positive partially offset by hedging. In terms of the D.C. issue which impacted Q3, it immaterially impacted Q4, so we closed it in January and we were done. So, from that perspective nothing really in Q4. And then we have about 40 basis point to 50 basis point of price realignment or price protection for our BLAST and MEGABLAST speakers as I discussed in backing our Q4 margin.

<Q>: Okay. Thank you very much.

<A>: Thank you.

Operator

Your next question comes from [indiscernible] Luke Capital. Please go ahead your line is open.

<A>: Hey [ph] Inanda.

<A>: Hey, Inanda.

<Q>: Hey guys how are you? Thanks a lot for taking the questions. And congratulations on another solid quarter. Vincent, are you sure, you don't want another credit intermediate term growth rate on the slide from the Analyst Day?

<A>: Sorry. I didn't understand?

<Q>: Are you – you wouldn't like to do overall the intermediate term growth rate from Analyst Day slide? Hey, a couple for me if I could. The first is just going back to the gaming I think, you put up sort of low 60% growth last quarter on a high teens compare and you just put up a 77% on I think in mid-20s compare.

So, it does seem like there is certainly moment was building, but it's also building off of sort of tougher compares. And so, what I'd love to know is what are you guys – what are you looking at? And then the growth was broad across regions across products. So, what do you guys look at as the signpost for growth?

That could be helpful for us, as we try to sort of gauge what this momentum kind of gain continues to turn out this. And I have a couple of follow-ups? Thanks.

<A>: Okay. Excuse me. Well Inanda you know we're pretty familiar with the gaming business because this is one that – this is not a new business so it was I think, it was about $140 million six years ago today it's almost $500 million so it's growing. It's growing very well and so we're pretty familiar with what's going on here. There are several things we're looking at. One is the obviously we get market data and market share data. So we have – we're very familiar with that and we're seeing really interesting growth rates all over the world, China for example has super high growth rates and very exciting.

And then obviously our market share and how we're performing within each of those markets and you know in some places we're doing better than others and – but overall we're doing pretty well. I guess the second thing is and then if you – look for more indirect measures, we keep an eye on, what's happening on Twitch and YouTube in terms of viewership. You know that's a real clear sign of how many people are coming into the franchises and you know that also continues to grow.

And then finally you know the most indirect measure in a way is what new games are coming online what upgrades are happening and you know you saw this year you had Fortnite and PUBG both you know relatively new games, one really new, that have a – that are having a big impact. But I think it's just it really does remind me in the U.S., of when you know some of the big professional sports were forming and I think they have a trickle-down effect on the people playing and watching and what better – winning better equipment and we're seeing it.

<Q>: And Bracken, that I would – begin to suggest the it's very early days. I mean if you really truly believe, that that sort of analogy is applicable here. That would – it would suggest that very early days potential wise.

<A>: Well you know I'm not a fortune teller, but I think – I don't know maybe others on the call will, it's not as obvious to you as it is to me. It is very early days. I mean this is the creation of the Overwatch League, which you could think of as either professional baseball or basketball or the ABA it depends on how you look at it just formed last year and it and they – you just had to buy enough teams paying you know $20 million a piece to create to buy a franchise. Last year, it was the restructuring and recreation of the League of

Of Legends Global League which is now the same thing where you had $10 million buy-ins and now you've got permanent teams in place. You've got – you've now got feeder teams that are forming city by city around the U.S. there is a – I think super league which is targeted at kids and adolescents and adults that are city-based teams. This is the churn and experimentation period that you saw and for example in the NBA and ABA and Continental Basketball League back in the 1970s and 1980s feels very early to me and I don't see anything except secular trends. I always draw a chart and some of you have seen it. It was a chart that shows you know what percentage of people play video games you know kind of age 80, 70 and 60 and 50 and 40 and 30 and when you get down to about 30, it starts to go almost to a flat line out to the right meaning a lots of people are playing and those people are going to get older and younger people are going to come in again. So I think it's super early.

<Q>: That's helpful. That's helpful, thanks. And then I guess sort of same question with the – with the deploying devices and keyboards in the portfolio of the numbers are obviously very strong. The compares were healthy compares and so could you just you know just sort of walk quickly through you know what you guys believe, where the catalyst to the especially strong quarter coming off of a pretty healthy comparison and I have one more quick one. Thanks.

<A>: Well, I think it's not a stretch in this case to say the ball is in our court to play. When we have good innovation and we have good execution, we can do well there. When we – when we're at a low, our execution is not as good, we're not going to go as well. And so you know the number of – I'm looking through a glass wall here, all the open office space that we have and every single desk has a computer on it. So, so it's up to us to create something that's worth changing what you have for. This year we launched the

ERGO trackball. We launched the CRAFT keyboard as I said those are relatively niche products. But you know instead we had a decent year and as you said we had better momentum in Q4. So it's up to us to innovate. So I'd say you know stay tuned we've got to keep innovating.

<Q>: Okay. Great. And then just last one for me. You mentioned in the prepared remarks that you're starting to the software, you kind of work below through. Could you just maybe speak to some of the more prominent areas I'm sure you went through this at the Analyst Day but there is just so much in terms to absorb at the Analyst Day that now that you're calling it out that would really helpful and that's it for me. Thanks.

<A>: Yeah. Your know, you know I'm always so wary of sharing too much because it might imply where we're going with things but that you know we'd rather keep to ourselves until we launch. But well what I would say is I can – we now have a head of software in every business group you know. So we have got somebody who is running at in all of them. We've got UX people and UI people working on the of integration software. And the creation of software in a way that's really easy for users to use and you can see that in for example the circle app or the jaybird app. So we're really doing a lot there and we're learning and we're learning and we're learning and it's really an exciting area. We still have a long way to go to realize what's potentially out there. And so you can just expect more. That's all I can really say except it's a very broad it's not just one category or two.

<Q>: That's very helpful. Okay. Thanks a lot. I appreciate it. congrats.

<A>: Thank you.

Operator

Next question comes from Michael Foeth with Vontobel. Please go ahead. Your line is open.

<**A**>: Hi, Michael.

<**A**>: Hey, Michael.

<**A**>: Michael, you might be muted.

<**Q - Michael Foeth**>: Am I on?

<**A**>: Yes, you are yes, you are.

<**Q - Michael Foeth**>: Okay. Thank you. So just an update on Jaybird. You mentioned double digit growth for the year. I was just wondering is that trend is also valid for Q4.

and then if you can maybe share with us what was driving the growth, what the geographic trends also are there, and how do you feel about the – sort of the repositioning or shifting and distribution channels for Jaybird ? Thank you.

<**A**>: You know Jaybird is our project because we really, it's kind of a labor of both exciting potential and a labor of love. You know we all really believe in this category. We believe in the continued secular strong rise of wireless earphones for everything and we love this narrow positioning that we have now in Jaybird and the brand itself. You know, I apologize, this is – again out myself.

We've now moved the headquarters from kind of an industrial park in Salt Lake City to a smaller space that I think might even be more affordable, but it's much cooler and it's right outside of a

[indiscernible], you walk out the back door and people can run. We've got Park City is also the home of the U.S. Olympic team. There is a lot of training of distance and ultra-distance runners. And we're building a performance lab in there for those people who got good experience with that and for us to help them train.

So we're in a long-term path and really excited about it and I think the potential here probably will take us a few years to really realize, you know, I think, Jaybird brand is phenomenal. I love the team we have working on it. I mean, we've got you know I won't name companies but exactly where you would think that you don't have them coming from or running this business now and it's going to – it's early days, so it's going to come, Q4 was – is a seasonally weak quarter for that business and it was weaker for us, for sure versus Q3, but it was really part of our overall plan which is we're systematically brick by brick or should I say step by step Kind of build a great running brand there and we're excited about that and I'm super excited about the products that are coming to.

<**Q**>: Geographically, just to give us an idea what the adoption looks like or...

<**A**>: We're fairly limited in our geographic scope so far, because we want to prove and expand rather than expand and try to prove. So we're – it's still mostly U.S. business and we're in a lot of European markets, the very top ones and to a little more limited extent to a couple of countries in Asia and we'll will slow or we're certainly in Australia, we're in Japan and we'll slowly expand us step by step.

<**Q**>: Okay. Thanks a lot.

<**A**>: Thank you.

Operator

Next question comes from [ph] Tom Forte with D.A. Davidson. Please go ahead. Your line is open.

<**Q**>: Hey there.

<A>: Hey there.

<Q>: Thanks for taking my question. So, I know you've talked a lot about gaming on this call, but I had two related questions.

<A>: Okay.

<Q>: So how should we think about refresh rates on the gaming equipment, and then in particular how should we think about the ability of one title such as fortnite to be a needle mover for Logitech?

<A>: Yeah. We kind of expected somebody will ask this because you can't be alive today and anywhere near gaming or a gamer, and I'd be hearing about a fortnite. So first of all, I think the refresh rates are in these categories it might even be too early to talk about refresh rates because there is so much it depends on how you think about refresh, at the time of refresh meaning we refresh our portfolio. I don't I hate to think about in terms of refreshment because we really like to drive more fundamental innovations and some innovations bigger than others, but we're really trying to do things that are more fundamental than that all the time. So I don't think we're really in the refresh game. We're really trying to constantly create a user experience that's better ideally significantly better. And I would say across our portfolio

we have opportunities and we're – and we have a very fast pace of innovation in the gaming business, so I would say as fast as anywhere. On the potential of a single title to have a big impact, it's big, you know it's really big. I mean, you know if you look at – what that the impact League of Legends had over the years you know there's no doubt that they almost in partnership with you know with [indiscernible] and others have and now – and kind of created the PC gaming phenomenon at least from an eSports standpoint and now the Activision Blizzard and all the other big players are doing – are pouring it on and you've got the new kind of independent players that are PUBG and Fortnite. And I think you know this is – this is the no pun intended, this is the game we're in, which is, if you create something that it has a magnetic appeal like a Fortnite and it's fun to watch like Forte, you have essentially to drive not only the existing players to move over, but even more important new players to come in and new people to start watching. And we're definitely seeing that with Fortnite, we saw with PUBG, we saw it with League of Legends, you know you'll see – you're seeing with Overwatch, so it's very broad and I think there will be more, there'll be more, it's going to come.

<Q>: Great. Thanks for taking my questions.

<A>: Thank you.

Operator

Next question comes from Paul Coster with JP Morgan. Please go ahead. Your line is open.

<A>: Hi Paul.

<Q - Paul Coster>: Hey. Hey, Bracken and Vincent. How are you doing? You are doing well. It is my impression. Just a quick one, going back to PC keyboards and point [indiscernible] devices again. So you do essentially very well but then no one is buying PCs, because you know it's a huge installed base out there and you also seem doing very well when people are buying PCs, and I'm wondering what we've learned from all of this over

the last two years or three years. Clearly Dell and HP are doing very well at the moment. And I'm just wondering how you associate those new sales with your success in those categories?

<A>: Yeah. It's a great question. When I first started here that was all the discussion around PC growth rates and then a light went on for us pretty early on. I think we said wait a minute, why we worry about PC growth rates. There's a PC on almost every desk and they don't seem to be moving and the usage rates are actually pretty stable. So, yeah, so I think our business has really driven much more because of that. I think our business is driven much more by the quality of innovation and are bringing that to market where people know about it than it is by the PC sales rate. That said we're probably not getting as much of a PC sales growth as much impact out of the PC sales growth rate as we might have 5 years or 6 years or 7 years or 8 years or 10 years ago because we're probably not driving attach rates on new PCs as well as we could. So I would say that's one of the areas we're not executing well enough. And so I think we do have an opportunity to point Paul, on both sides, but the installed base effect is much bigger really in the end, no matter how big your PC sales are, they just really put a dent in the installed base.

<Q>: All right. And then one other question which is a little unfair but you've demonstrated excellent management of this company during good times. So it's a little bit about how the business model you think would respond to a recession in the event that we see one in your next five years which is I think your next planning horizon?

<A>: I'd say it's always – as you said it's very hard to predict, but I don't think it's an unfair question. I think it's the kind of thing we do need to think about. We're in categories if you think about our business we're actually in categories that nothing is recession proof. But that we should do pretty well

in the event that you know the economies are less good or even bad. I mean video collaboration is probably the [indiscernible] for that. Video collaboration – today video collaboration is probably going in more and more because people want to have video communication not audio communication.

In a world where you had a recession where company said, boy we're going to cut our air travel, we're going to do this, it will be a great alternative to air travel and it will be an incredible value because the cost of one trip is more than what we would pay to video enabler in a room, you know and so I think that is a really good one to invest in, in the event that if the market goes bad and a good one to invest in, if the market is good.

So, I think we've got a few categories like that and most of our product – that's our most expensive product by the way and actually relative to a down economic environment, might be the most inexpensive product or best returning thing you could buy if you're a company. So I'd say that's on the one side and the other side you know even though our average sales prices have gone over the years because our mix of products has changed. We're still selling stuff that's pretty affordable and they are small indulgences. So you never know it's hard to predict but I would think we do okay in a recession market.

<A - Vincent Pilette>: I guess I was more interested in the business model. I mean our sense this is really quite a variable cost model and you can flex with circumstance trying.

<A>: Yeah. I'll finish it. I know Vincent. I can look at Vincent until he's ready to jump in here. You know I think we're trying to be flexible and agile in everything we do and you know you can tell that from the way that we maneuver you know quarter-over-quarter and year-over-year, I think if you can, we can. We can always be more flexible, more agile. But that we want to – you know one of the creators we have Paul and you know I've kind of talked about this before is we want to operate much more like the small company we started not like the big company that at one point I think you know people thought we aimed to become.

that. So we want to be fragile, I mean agile. We want to be able to be flexible. We want to be able to scale up and scale down and move resources fast from one place to another whenever we see opportunities not willingly in a controlled way, but in a really smart and fast way. One of the things that drives me personally is China. Every time I go to China, I'm amazed by the speed of everything around me. And we have a big business in China, a very competitive business in China and we're winning in China. And that inspires me and we're trying to bring more China clock speed into the rest the company in China flexibility.

<Q>: Got it. Thank you.

<A>: Thank you, Paul.

Operator

[Operator Instructions] Your next question comes from Jörn Iffert with UBS. Please go ahead. Your line is open.

<Q - Jörn Iffert>: Hello.

<A>: Welcome back, Jörn.

<Q - Jörn Iffert>: Thanks for the question. And first is a very quick one sorry if I was maybe a little confusing and Vincent when you said mobile speakers and sales through plus 5%, this was for Q4 2018, right?

<A>: Yes, correct. Mid-single digits.

<Q - Jörn Iffert>: Okay, okay. So does it. Okay. The second question is, is it fair to assume that half of your sales growth of organic sales growth is coming from like-for-like and the other half from finding new distribution end channels?

<A>: I don't think so. I would say much more of our sales growth is coming from like-for-like.

<Q - Jörn Iffert>: Okay.

<A>: I don't have an exact number. But I think news distribution channels would be a relatively small percentage of our sales growth much less than that.

<Q - Jörn Iffert>: All right, that's helpful. Thanks very much.

<A>: Okay.

Operator

At this time, I'll turn the call over to the presenters.

Unverified Participant

Okay. Well, thank you. Thank you very much. And again, I'll just repeat what I said earlier I think a lot of people, and I knew a lot of you congratulating on the call and we thank you for that. And you know I'm not being false, this is not false modesty. We really feel like we could have done better this year. And I think as you know owners of the company and leaders of the company, you can count on us to try to really improve our game as we go into the next year. Some of the things we have this year shouldn't have happened and as Vincent said there were there are great learning events and we'll – we're going to apply them right into what we're doing next year. We're super excited about this year. We're super – even more excited about the long term here and never been more committed. So thanks a lot.

Operator

This concludes today's conference call. You may now disconnect.